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Report Highlights:
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Includes PSD changes: No
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Mexico [MX1], MX

Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

DISCLAIMER: Any press summary contained herein does NOT reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

POTATO DOMESTIC PRODUCTION vs IMPORTED POTATO

According to a research paper from the University of Chapingo, structural advantages in the United States and Canada with respect to Mexico in potato production have allowed the former countries to benefit from NAFTA, and these benefits will increase in 2003 when the market will have no duties. Even though Mexico is not self-sufficient in potato production, area planted has been reduced from an average of 73,416 hectares in 1989-1993, to an average of 63,107 in 1994-98. According to this study, Mexico has lost nearly US$500 million because of imported potato seed, fresh potatoes and frozen french fried potatoes. Furthermore, it indicates that the cost of production is higher in Mexico than in the United States or Canada and yields are much lower in Mexico. Therefore, the possibilities of Mexican producers to modernize to be competitive will be unfavorable in the short and long term. Another article about potatoes, indicates that if the potato industry sector in Mexico does not begin to have a long term vision including developing more attractive products, they run the risk of losing the market. (Source: *El Financiero,* 6/11/02; *Reforma*, 6/10/02)

U.S. FARM BILL A THREAT FOR MEDIUM AND LARGE PRODUCERS

According to Francisco Mayorga, Chief Director of ASERCA (SAGARPA's decentralized administrative body in charge of developing and implementing Mexican domestic farm and agricultural trade policy), the recently approved six-year U.S. Farm Bill will affect medium and large Mexican agricultural producers as well as Mexico's surplus crops. For small agricultural producers, which are predominant in Mexico, Mayorga foresees that this bill will not impact them since their production is sold domestically in small volumes and at prices many times higher that international ones. Mayorga also stated that the final provisions of the U.S. Farm Bill "consolidate" emergency budget increases that the U.S. Government gave to American farmers in the last four years, in order to compensate them for low international commodity prices. Therefore, Mayorga pointed out, "the impacts of the new farm bill have to be put in their proper perspective, as the budget increases were absorbed by the markets." Mayorga also emphasized that the principal message of the U.S. Farm Bill was that the United States recognizes the difficulty of living with the uncertainty that free markets bring because the political costs can be high.

There are, however, some factors in the farm bill which will affect Mexico. The increase of sorghum loan rates, for example, will boost U.S. production and allow farmers to store their crops at higher prices than market prices. Mayorga explained that this increase in sorghum production has a direct impact on Mexico, as it imports between four and five million tons yearly. He also criticized the expansion of new farm bill subsidies in rice and cotton crops, areas of production where Mexico has had production problems recently. Mayorga complained that the bill would impact adversely Mexican government incentives for Mexican farmers to switch production from white corn to crops that Mexico is not self sufficient in producing (i.e., yellow corn, sorghum, oilseeds, and cotton). There is also concern because the farm bill includes new products, such as honey and chickpeas which previously had not been included. Mexico will likely lose these markets, Mayorga said. Lastly, he underlined the importance of the United States playing a central role in the WTO negotiations, which have been dubbed the Doha Development Agenda, and worried aloud that the farm bill puts U.S. leadership in jeopardy. (Source: *El Financiero*, 6/04/02)

FOX THREATENS U.S. AGRICULTURE

During a meeting with the Mexican Agricultural Council (CNA), the equivalent of Mexico's Farm Bureau, President Vicente Fox pointed out that the Government of Mexico (GOM) will not neglect the interests of Mexican agricultural and livestock producers. He also said that the GOM is analyzing the consequences of increased U.S. agricultural subsidies. "So far, I have an agreement with President Bush that both countries will review how these new subsidies will affect Mexico," Fox indicated. According to Fox, the U.S. increased agricultural subsidies in spite of the general world tendency and Doha commitments to eventually reduce them. Fox also stated that the GOM is working on the next trade conference of the World Trade Organization, which will be held in Mexico next year. During this conference, Mexico will be able to address subsidies and market access matters, he said. Up to now, however, the GOM reserves its right to use legal instruments against subsidies and market access issues. Fox reiterated that the GOM will not abandon Mexican producers. He concluded by stating that Mexico will not allow unfair trade practices. (Source: *El Financiero, Excelsior*, 6/16/2002)

ECONOMY SECRETARY SUPPORTS NAFTA

During a meeting with Mexican agricultural entrepreneurs, the Secretary of Economy (SE) Luis Ernesto Derbez defended NAFTA. He invited the agribusiness sector to react intelligently as Mexico faces increasing agricultural imports in 2003, when 20 import tariffs of agricultural products will be removed. "We have to be cautious and leave aside emotions, carefully taking advantage of the defense mechanisms that NAFTA and the World Trade Organization (WTO) offer us," he said. Otherwise, he said, Mexico could lose NAFTA benefits on areas such as fruits and vegetables. Derbez also offered higher agricultural supports for Mexican producers, but did not give any details. He stated that Mexico's agricultural policy has to be redefined in light of higher U.S. subsidies. Derbez recognized that poverty in the Mexican countryside, where 25 percent of the entire population lives, is one of the country's most serious and profound problems. The Secretary, however, pointed out that the vulnerability in the agricultural sector is due to inadequate agricultural policies over the past 18 years, and that these deep-rooted problems could not have been solved in the 18 months that the Fox Administration has been in power. Derbez outlined that thanks to NAFTA, fruit and vegetable exports have increased as has livestock production, poultry meat production, hog production, and egg production. Lastly, Derbez stated that the 40 percent increase in U.S. agricultural subsidies under its new farm bill, which will reach US$115 billion dollars annually, does not violate WTO rules nor the Doha agreements. These agreements call for elimination of those subsidies within the next five years. "Maybe in ten years we can talk of reduction in these supports," Derbez said. (Source: *El Financiero*, 6/14/02)

ANOTHER ANTIDUMPING THREAT IN THE MAKING

The Mexican Association of Cattle Feedlots (AMEG) is analyzing the possibility of promoting a new antidumping suit against imports of cattle and beef meat from the United States. According to the president of AMEG, Juan Barrio Aguirre, the continued influx of meat products to Mexico at inferior prices compared to the cost of domestic production indicates that the U.S. meat products exported to Mexico are old and sometimes are rejects of exports from the United States to Japan (the United States' principal customer) and whose quality cannot be supervised and inspected correctly until the border verification points on the Mexican side are operational. (Source: *El Mercado Agropecuario*, 6/21/02)

NAFTA GROUP TO STUDY TRANSGENIC CORN IN MEXICO

A North American Free Trade Agreement (NAFTA) environmental commission said Thursday, June 20, 2002, that it would investigate reports of transgenic corn growing in southern Mexico, responding to concerns that imported corns have contaminated native crops. Scott Vaughan, head of the Economy and Trade Division of the Commission for Environmental Cooperation (CEC), said genetically modified corn was a "huge issue" for Mexico and warranted additional investigation. Results of the probe in the southern state of Oaxaca could come within nine to 10 months, he said. The CEC is an environmental body set up under NAFTA, which joins the United States, Mexico, and Canada. CEC scientists from the three countries will begin the investigation in mid-July, Vaughan said. (Source: *The News and Environmental News Network*, 6/21/02)

UNILEVER TO EXPAND INVESTMENT IN MEXICO

Anglo-Dutch consumer products giant Unilever plans US$30 million in direct investment in Mexico and another US$200 million on marketing, the company's chairman said. Unilever Chief Niall Fitzgerald met with President Vicente Fox Tuesday, June 18, 2002, to reiterate his company's commitment to strengthening its presence in the Mexican market. Unilever has invested close to US$500 million in Mexico over the past 10 years, Fitzgerald said, adding that Mexico has been an important contributor to the company's Latin American expansion. Unilever's five plants in Mexico manufacture food products, personal care products, ice cream and industrial products. The company employs more than 5,000 people in Mexico and generates some US$1 billion in annual revenue. (Source: *The News*, 6/20/02)

MEXICAN TRUCKS TO ROLL ON U.S. HIGHWAYS SOON

According to a local newspaper, U.S. Commerce Secretary Don Evans, wrapping up a three-day tour of Mexico, told reporters he expects U.S. President George W. Bush to declare the much debated safety regulations as final soon, thus allowing Mexican trucks on U.S. highways by the end of the summer. Under the NAFTA, Mexican trucks were supposed to be allowed to travel throughout the United States by January 1, 2000. The trucks currently are restricted to a commercial zone along the border. Bush fought to allow Mexican trucks into the United States, but U.S. congressional members blocked the move last summer, demanding more safety checks. The two sides reached an agreement at the end of 2001 that calls for on-site inspections of Mexican carriers wanting to operate in the United States and stricter checks at the border. (Source: *The News*, 6/21/02)

U.S. TO FUND FEASIBILITY STUDIES OF MEXICAN TRANSPORT UPGRADES

The United States plans to spend US$1 million to determine the feasibility of modernizing the Puebla airport and expanding the port of Veracruz, Mexico's Communications Secretariat said. The studies are the fruit of several agreements signed with the U.S. Trade and Development Agency (TDA) during U.S. Commerce Secretary Donald Evans' visit to Mexico. The United States earmarked US$550,000 to examine the possibility of modernizing the terminal and improving air cargo services at the airport in Puebla, in central Mexico. Another US$400,000 will be used to study the feasibility of expanding the eastern Mexican port of Veracruz. Officials said the bidding process for these studies would be carried out under Mexican law, while the terms of the contracts must be approved by the TDA. (Source: *The News*, 6/20/02)

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